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BRITISH COLUMBIA

Ministry of Forests
Small Business Forest Enterprise Program

Bid Proposal Program Performance Review

Timber Sale Licences issued under Section 21 of the Forest Act

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Submitted by: Ministry of Forests
Forest Enterprises Branch

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Forest Enterprises Branch

100-06337/

Program and Licensee Performance

Small Business Forest Enterprise Program

Section 21 Timber Sale Licensees

Introduction

The Small Business Forest Enterprise Program (SBFEP) has been delivering timber to value-added manufacturers since late 1988. At that time, the SBFEP underwent significant changes, and took on additional objectives of encouraging the expansion of the independent value added sector. Using timber volumes obtained primarily from a transfer of 5% of major licensee allowable annual cut to the program, timber has been delivered through timber sale licences issued under Section 16.1 of the *Forest Act,* and latterly under Section 21 of the *Forest Act.*

Government's objectives in providing access to standing timber through bid proposal sales are:

1. To provide opportunities for innovation and entrepreneurs in independent and smaller firms;
2. To encourage and promote greater employment and community stability through economically sound and viable remanufacturing and the production of specialty wood products by independent remanufacturers in British Columbia; and,
3. To award sales competitively.

In order to keep pace with changing Program demands and improve client service the policies and procedures for administering these timber sale licences have undergone a number of changes over the years. The original interim policy and procedures were replaced in 1991 following a committee review of the bid proposal program. A further independent review conducted by R.M. Jeffery in 1992 revealed that bid proposal sales were successful in achieving the published objectives for those sales. Policies and procedures remained essentially unchanged until December 1996.

Evolving government objectives and a need for a more technical and transparent evaluation process necessitated a complete overhaul of policies for administering bid proposal sales. A new interim policy and evaluation procedure was implemented in December 1996, and was tested over the next 18 months. Following a client and staff consultation and review process, the current policy and procedures were fully implemented in August 1998.

Performance Monitoring Process

Historically, Program monitoring of licensee manufacturing performance has been conducted in two ways. Licence holders are contractually required to submit periodic performance reports to regional ministry staff. The reporting frequency is determined on a license by license basis, and is positively related to the estimated risk associated with an individual operator. Therefore for licensees that have a higher degree of perceived risk of performance the frequency of the reports increases. Licence holders are also monitored through a formal inspection of licensee manufacturing operations and financial accounts. These inspections are usually conducted once per year during the term of the licence.

To enhance the Program monitoring process, Forest Enterprises Branch (FEB) in late August 1999, undertook a provincial assessment of licensee performance based on active timber sale licences issued since January 1997. The 1997 cut-off date was chosen to coincide with the policy and procedural changes implemented at that time. These changes introduced new evaluation criteria, and required applicants to submit verifiable information from consistent sources in their proposals. Under this new system the leading candidate's proposal is thoroughly reviewed, in order to substantiate the key information contained in the proposal prior to the final award.

Program Performance

The study examined the performance of 65 companies holding a total of 91 active timber sale licences issued under Section 21 of the *Forest Act*. In order to undertake a broad based Provincial review a survey methodology was adopted. This method was selected over an in-depth audit of randomly selected firms in order to capture the widest spectrum of Program activity.

The data in the study was collected from two sources:

- prior performance reports submitted to the Ministry of Forests over the period January 1997 to April 1999; and
- a survey questionnaire designed to capture current company performance as of June 1999.

It is intended that the data received from the survey process will form the core of a database that will assist the FEB in its delivery of the Bid Proposal Program. Plans are being formulated to allow for this Provincial monitoring process to be undertaken semi-annually. This will allow the process to capture the changing nature of the businesses and yet not be onerous in terms of reporting requirements. As the database expands overtime the trends found in the data will provide key insights into the nature of the value-added industry.

All operators who were active during the period January 1997 to June 1999 were asked to complete a survey form (see Appendix 1 for a copy of the questionnaire). Survey responses were received from 77% of the sample group. This represents approximately

79% of the annualized timber sale licence volumes attributed to sales over the study period.[1] This lower than anticipated response rate may have arisen as a result of uncertainty within the client group regarding their reporting responsibilities. The study represented a marked departure from the previous years review processes. This may have caused a number of clients to feel that they were only required to report on an annual basis as they had done in the past. This situation is being addressed and procedures are being developed to ensure higher response rates are obtained.

A number of key Bid Proposal performance indicators are presented in Table 1 below. The values represent actual achievements developed from the survey. To better understand the indicators the achievements have also been presented on an annalized and annualized cubic meter basis.[2]

Table 1
Key Bid Proposal Performance Achievements

Achievements	1997-1999	Annualized Average	Annualized per Cubic Meter
Volume sold (m^3)	5.5 million	1.72 million	1.72 million
Jobs Maintained (#)	2,764	2,764	1.6 jobs/1,000 m^3
Total Jobs Created and Maintained	3,257	3118	1.8 jobs/1000 m^3
Capital Investment ($'s)	$16.7 million	$5.22 million	$3.03/$m^3$

From Table 1 we see that by supplying access to 1.72 million m^3 of Crown timber the Program was able to incite commitments from Program clients to maintain and create 3,118 jobs/year[3] and facilitate $5.2 million/year of new investment annually in the value-added sector. On an annualized per cubic meter basis the investment of Crown timber supported 1.8 jobs/1,000 m^3 overall and maintained 1.6 jobs/ 1000 m^3.

The greater level of jobs per 1,000 m^3 in the overall number of jobs supported is due to the 154 new jobs that were created annually (493 new jobs over the average license term of 3.2 years). The level of employment per 1,000 m^3 found in the survey data is larger than the average sawmill which generates 1.1 jobs/1,000 m^3 and reflects the smaller scale and lower capital intensity found in the average reman facility than in a large modern sawmill. Care should be used in employing these numbers across the value-added industry due to the limited number of individual firm data points and specific definitions of employment as used in the Provincial Template.

[1] The 77% response rate was significantly higher than the 68% response rate of a FRBC study of the Value-added industry undertaken by the Canadian Forest Service in 1998.

[2] The average term of Section 21 licenses over the period 1997-1999 was 3.2 years. In order to annualize the values the assumption was made that capital investment and new jobs were added proportionally over the life of the license.

[3] A job is defined for the purpose of the Bid Proposal process as a "Full-time Equivalent" (FTE). A job is measured as all production, sales and administrative staff on the payroll and contracted personnel required directly for the processing of the plant's output that were paid for and worked 1760 hours per year.

Employment as defined in the Bid Proposal process accommodates the inclusion of contract and piecework production staff. The decision to include these kinds of personnel was made to recognize scale issues of smaller value-added operations. Many of these firms do not have the scale of operation necessary to hire full-time design, technical and piecework production staff. These technical staff and piece workers although critical to produce the product are not required for all stages of the production process and are therefore hired on a needs basis. This inclusion of contract staff makes any direct comparison of the survey employment data with other studies difficult.

Performance Measures

Licensee performance was measured by comparing their actual achievements of four key criteria to the commitments submitted in their proposals and subsequently verified by ministry staff. The four primary criteria assessed were:

- throughput volume;
- employment;
- capital investment; and,
- value added.

By employing a relative performance measure based on an evaluation of individual firm's achievement of commitments made in their proposals we avoid the challenge of dealing with the potential for the scale of operations to bias the results.[4] Use of a relative performance methodology also facilitates development of an unbiased Provincial performance indicator. Since all performance is measured on a relative basis the Provincial assessment can be developed by simple aggregation of the individual firm's proportion of achievements. Regional performance was evaluated on a similar basis.

Performance

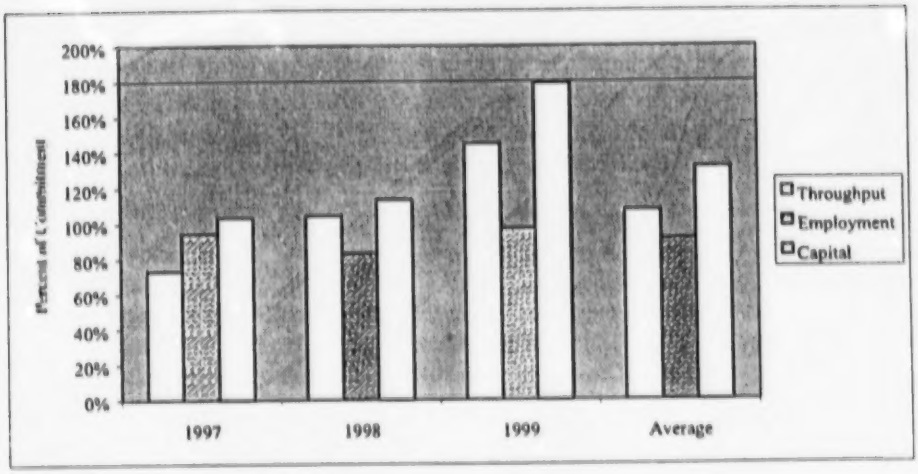
Evaluation of the Provincial performance on throughput, employment capital and investment is developed in Figure 1 below:

A number of interesting performance trends are seen in Figure 1 below:

- capital investment targets have been exceeded in all three years;
- throughput performance has shown consistent improvement increasing from just under 75% in 1997 to 145% of commitments in 1999;
- employment performance has improved, rebounding from weakness experienced in the 1998 period to attaining over 97% of commitments in 1999.

[4] If an absolute evaluation was used scale biases could be introduced whereby the performance of large operations would overshadow that of smaller firms because of the large numbers involved.

Figure 1
Provincial Program Performance Evaluation 1997-1999



Taken together these trends are positive and reflect the ability of the Program's clients to deal with the realities of the marketplace. Long-term employment is created and sustained through capital investment. The continuing commitment to expand investment has allowed the firms in the Program to lay the groundwork for improved employment activity in the sector. The scope of the business challenges facing many Program clients in 1998 can be seen in the lumber price trends of the period.

A large proportion of the Program's participants are lumber remanufactures. These clients manufacture various forms of finger jointed lumber which are sold throughout Canada and the US. The price that they receive for their products represents a critical factor in determining the overall profitability and viability of these operations. A bell-weather indicator for the reman and lumber market is the price of green 2x4 SPF lumber. In 1998 the 2x4 SPF price averaged $286 US/Mfbm down 19% from the 1997 average price of $352 US/Mfbm.

The impact of the weakened market conditions is evidenced in the lower employment performance levels seen in Figure 1 above. In 1998 employment performance fell to the monitoring period low of 83% of commitments.

Facing the economic realities of the time, Program clients were forced to curtail costs and production as market demand for lumber declined. These cost reductions were achieved through adjustments to their variable costs of which labour is one of the largest components. However, the firms recognizing the importance of improving operational efficiencies maintained their investment in new plant and equipment. As a result of this consistent investment the businesses in the Program placed themselves on a solid production footing. As lumber markets improved throughout 1999 these firms were ready to increase output and employment.

The improved production and employment activity experienced in 1999 is clearly evidenced in the increased performance in both the throughput and employment indicators. From Figure 1 above we see that throughput attained over 140% of commitments and employment was nearly at full commitment.

Employment and Throughput Growth was not Fuelled by Accelerated Harvest

A test of actual versus annualized harvest levels indicates that accelerated harvest levels were not used to fuel the employment and throughput growth experienced over the period of the study.

Concerns that the firms in the Program may have achieved the increased employment and throughput by accelerating their harvest levels was examined. Average actual harvest rates over the period of the licence were compared to the annualized harvest rates based in the license term. Under this test if actual harvest rates were found to exceed the annualized average this would be a strong indicator that harvest rates were being accelerated to support the growth. The data clearly rejected this hypothesis. Over 64% of the clients in the survey had actual harvest levels under or in line with their annual average harvest rate. This indicates that the increasing throughput was not generated by an accelerated harvest and that the firms were accessing other sources of fibre inputs to fuel this expansion.

Strengthening Performance Trends

The survey data covering the period January 1997 - June 1999 indicates that Program Clients have exceeded their commitments for investment and throughput establishing the ground work for the improving trend in achieving employment commitments.

These strengthening trends are evident in the average performance over the three years. Throughput and capital investment achieved substantially more than their commitments and employment achieved 91% of promised activity levels. The survey data supports the view that the reporting firms made solid business decisions to continue expansion of their operations and participation in the Program did not materially impact on their business decisions. This represents a positive result for the Program and indicates that the participating firms were not placed in jeopardy by their commitments to the Crown.

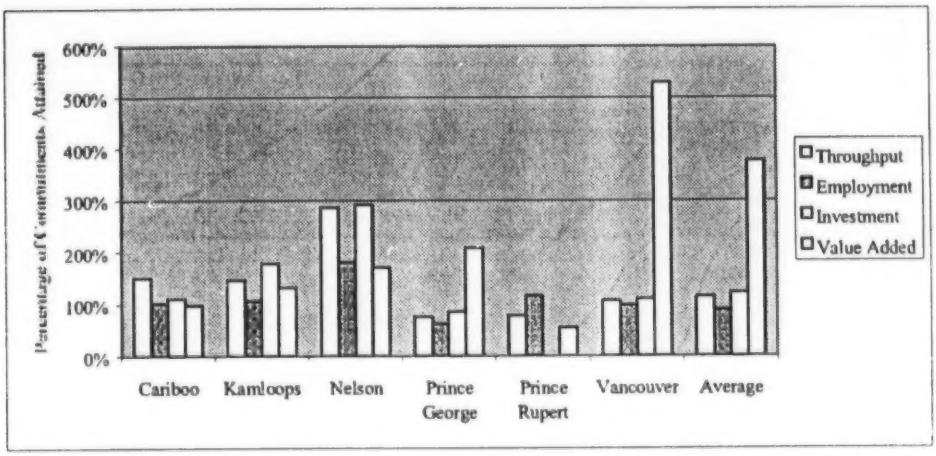
Regional Performance

North South Regional Performance Split

The survey data identified a distinct north south performance split within the Regions. Cariboo Kamloops Nelson and Vancouver operators meet or exceeded performance commitments however Prince George and Prince Rupert operators experienced greater challenges in attaining their commitments.

The average regional performance for the four main evaluation criteria is presented in Figure 2 below. From Figure 2 we see that on a regional basis performance varied greatly. Licensees in Kamloops, and Nelson achieved or exceeded all commitments over the period with Cariboo and Vancouver substantially achieving their targets. However, licensees in both the Prince George and Prince Rupert Forest Regions were for the most part unable to meet their obligations, although Prince Rupert did exceed its employment commitment.

Figure 2
Average Regional Performance 1997 - 1999



The limited level of survey response received from these weaker performing regions may in part explain this regional variability. The particularly low employment performance in the Prince George Region arose out of the temporary closure of a large value added operator. The firm represented a significant portion of the overall Prince George Program and therefore its closure dramatically reduced overall regional performance.

One of the most striking features of the data presented in Figure 2 is the lack of investment activity in the Prince Rupert region. All other regions have evidence of strong investment commitments. Discussions with regional staff indicate that there may be three fundamental factors causing this divergence in activity:

- The first is a generally weak timber demand in the region which reduces the overall value of the sale. This inability to capitalize on the timber value makes it difficult to lever the sale's value for capital investment.
- The second is the continuing overhang of the weak Asian markets that has reduced demand for their products. This continuing weak product demand makes it difficult to justify further investment in new plant and equipment.
- The third factor relates to the structure of the Provincial template which does incite the need for investment to win the sale. Under the current weighting structure a firm

has distinct advantages to direct resources towards employment maintenance rather than investment. The Provincial template currently has a 30% weighting for employment and 10% weighting for investment. Given the scarce investment resources available regional firms are directing effort toward those factors that will produce the highest probability of developing a winning score

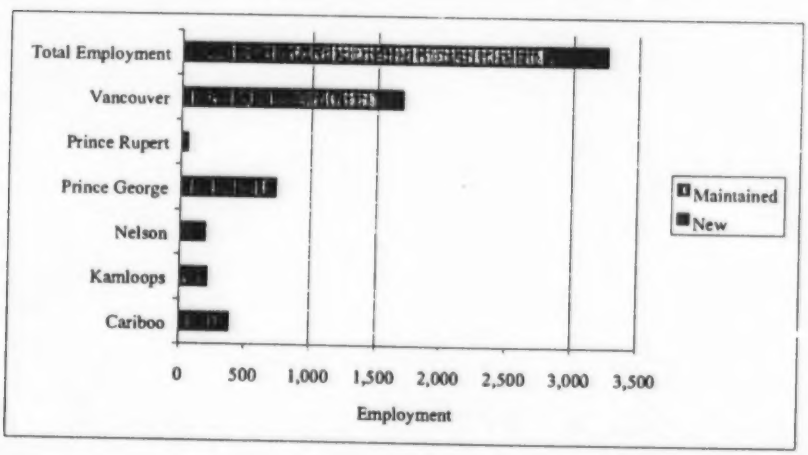
Total Employment

The 91 timber sale licences issued between January 1997 and June 30, 1999 supported a total of 3,257 jobs, consisting of 2,764 maintained and 493 new jobs. The regional distribution of employment is depicted in the Figure 3 below.

Employment Expansion

The Vancouver Forest Region remains the centre for value-added development although Nelson, Kamloops and Cariboo Forest Regions have shown strong growth in new job development.

Figure 3
Regional Employment Distribution 1997-1999



From Figure 3 above we see that licensees located in the Vancouver Forest Region maintained and created the greatest number of jobs over the period of the survey. This is in keeping with the findings of the 1999 review of BC secondary wood manufacturing[5] which found that 61% of the value-added industry is located within the Vancouver Forest Region. Although the Vancouver Forest Region in an absolute sense produced the largest number of new jobs the Nelson, Cariboo and Kamloops regions generated a higher

[5] Bill Wilson et.al. (1999) "An Examination of Secondary Manufacturing in British Columbia: Structure, Significance and Trends".

proportion of new jobs to existing positions. Firms in the Nelson region remarkably generated more new jobs than the number of jobs maintained.

Interestingly there was no clear correlation between the product group and this higher employment and the effect appears to be more a case of a relative base differential. In the Vancouver Forest Region the existence of a well-established industrial base lessens the impact of the development of a new plant and its resulting jobs. This is contrasted against the case of regions such as Nelson where the level of value-added activity is much smaller and therefore the relative impact of adding a new plant can be substantial.

The figure also highlights the impact of the lack of investment found in the Prince Rupert Forest region where we see no new employment was generated. This is in stark contrast with the Nelson region we see a strong correlation between the level of investment commitments and the generation of new jobs.

Template Score Performance

As a further test of licensee performance the monitoring review also reassessed each licensee's average performance against their respective proposal score as determined using the current published "Guidelines for Bid Proposal Sales". The results of this re-evaluation can be viewed as an independent test of the validity of the monitoring methodology. The results of this reappraisal are presented in Table 2 below. The table presents the relative evaluation of actual performance to the initial proposal's commitments.

Table 2
Licensee Reappraised Template Scores

Region	Investment (%)	Employment (%)	Labour Value Added (%)	Change in Value Added (%)	Aggregate Total (%)
Cariboo	129	67	115	77	97
Kamloops	86	88	111	330	111
Nelson	199	51	128	199	131
Vancouver	102	77	111	206	105
Prince Rupert	-	165	116	125	134
Prince George	49	65	103	66	76
Average	119	64	109	118	96

On average, licensees scored higher than their original proposal in capital investment, labour remuneration (LVA), and value added (CVA). The labour intensity (FTE) score was significantly below proposal scoring. Due to the impact of the lower employment scores the overall regional average was able to attained only 96% of the original aggregated proposal score.

The analysis supports the previous findings that businesses in the face of weakening market conditions continued to invest in the capital resources of the plant. This decision

positioned the firms to be able to take advantage of improving conditions that arose in 1999 as the lumber markets rebounded.

Conclusions:

The primary objectives of the Small Business Forest Enterprise Program have been achieved. Bid proposal sales issued under Section 21 (formerly 16.1) of the *Forest Act* have encouraged the growth and development of the value added sector and assisted in the diversification of the BC forest industry.

The survey data clearly indicates that licensees on average delivered on the commitments made in their proposals. The data also suggests that the obligations did not substantially impair the ability of Program's clients to deal with the realities of the marketplace. The firms were able to make sound business decisions to improve the productive capacity of their operations. This continuing investment positioned the firms to be able to take advantage of the improving markets experienced in 1999.

The expansion in investment, throughput and employment experienced over the period of the study were not fuelled through accelerated harvesting activity. Tests of the actual versus anualized harvest rates indicate that over 64% of the licenses are at or below their annualized levels. This suggests that the firms are accessing other sources of fibre to fuel this expansion.

The lower than expected survey response rate needs to be improved. A clearer communication process will be developed in order to explain the reporting obligations of the clients. The valuable information gained form the survey clearly indicates that a similar process should be undertaken on a regular basis. It is hoped that a semi-annual review process will be instituted on an ongoing basis. This will allow for an effective expansion of the database and yet not represent an onerous reporting obligation for the licensee.

The continued expansion of the performance data will facilitate an informed dialogue between industry and the Ministry and it is hoped that this will promote the development of more effective Program delivery mechanisms. It is important to recognize that due to the inclusion of contract technical (i.e. design architects) and piece workers in the Provincial Template's definition of employed workers, care must be used when making direct comparisons of employment intensity between studies.

The decision to include contract personnel in the Template's definition of employed workers was made in order to recognize the scale implication of many of the Program's smaller clients. The scale of these operations is not large enough to employ these technical and piecework employees on a fulltime basis, although they are directly required for the production of their products. Therefore to fully capture the total employment impacts of these smaller clients the Template is structured to include specific production related contract workers.

Appendix 1

Bid Proposal Monitoring Survey Questionnaire

Monitoring Report
Special Bid Proposals under Sec. 21 – SBFEP
Input Fibre

(a) Data must be valid for period from 1-May-98 to 31-Dec-98

Total Log Throughput:	**Volume**	
Total Logs Processed in Mill		m^3

Total Logs Used Can Be Calculated as Follows:

Add	Total Inventory (^{m3}) Start of Period	.....m^3
Add	Total Log Purchases (^{m3}) Incoming Logs	..... m^3
Minus	Total Log Inventory (^{m3}) End of Period	.....m^3
Equals	**Total Log Usage (enter above)**	.....m^3

If inventory information is not available use log purchases (incoming logs) , or use other mill records or scales which support the volume of logs milled in your facility.

Total Lumber Sales
(a) To Remanufacturers in BC

Name of Remanufacturer	Volume M fbm

(a) To Others (Not Remanuacturers in BC)

Name of Purchaser	Volume M fbm

Other Information

Total Number of Manhours Worked This Period (Include Salary at 146 Mhrs / Mo.)

Monitoring Report
Section 21 Bid Proposals – SBFEP

(a) Data must be valid from 1-Jan-99 to 30-Jun-99

	Volume	Delivered Cost
Total Logs Processed	m^3	$
Total Lumber Processed (Nominal Count)	M fbm	$
Total Residue –Chips/Sawdust Processed	BD Tonnes	$
Total Plywood Processed	M sqft. 3/8"	$
Total Particleboard Processed	M sqft. 3/8"	$
Total MDF Processed	M sqft. 3/8"	$
Other (Specify Type and Units)		$

Employment

Total Hours Worked (Hourly Workers)	Hrs.
Total Number Full Time Salary (1 worker for 6 mos = ½)	Number
Total Hours Worked by Contractors on Site [1]	Hrs.

[1] Do not include trucking or logging contractors

Total Gross Payroll [2]	Dollars
Total Paid to Contractors Working on Site	Dollars
Are any payroll employees paid more than $100,000/Yr?	Yes/No
Total Amount Paid in Excess of $100,000 per year [3]	Dollars

[2] if reporting period is for full year then report amount in Box 14 T4 summary for that year

[3] For all those employees that were paid more than $100,000 per year, please total payment amount that exceeded $100,000.

Capital Invested

Description of Asset(s)	$ Amt Spent [4]
	Dollars
	Dollars

[4] The total amount (purchase, delivery, installation, etc.) invested to make asset productive. This amount would be capitalized and would appear on balance sheet.

Value Added

Total Net Sales (Deduct Freight Out Costs) Canadian $	Dollars
Cost of Supplies (Includes Power, Fuel, Maintenance Supplies, Operating Supplies - glue, knives, etc., and any other supply used up in the process of manufacturing.)	Dollars

Do You Manufacture Log Homes – % of Sales $	% of Sales
Do You Manufacture Post and Rail Products - % of Sales $	% of Sales
Do You Manufacture Veneer by Slicing? - % of Sales $	% of Sales